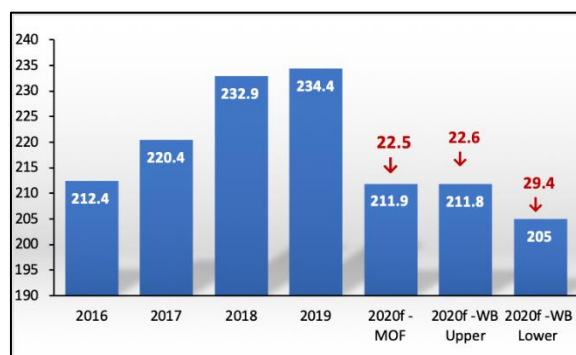


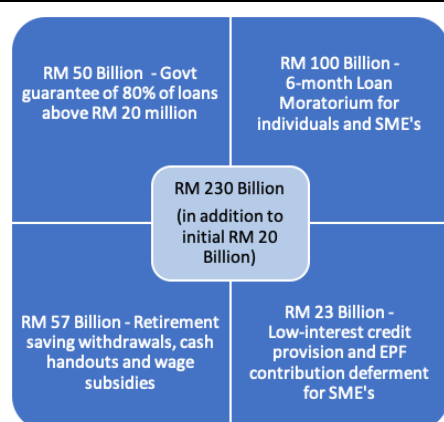
# Country Insights - Covid-19 in Malaysia

Fig 1: Estimated Shortfall in Govt. Revenue ( in RM Billions)



Source: MOF, World Bank Group

Fig 2: Distribution of Malaysia's Second Stimulus Package



Source: Malaysia Prime Minister's Office, 27 March 2020

*“We are a nation at war with invisible forces. This unprecedented situation, of course, requires unprecedented measures. This government may not be the government you voted for, but I want you to know that this government cares for you.”*

- Prime Minister of Malaysia, Muhyiddin Yassin. 27<sup>th</sup> March 2020

When Malaysia received its first case of Covid-19 on January 25<sup>th</sup> 2020, the nation had little foreboding of the political and economic turmoil that was lying in wait. Just as cases started spiking in late February, after the formation of a cluster linked to a religious gathering in Kuala Lumpur, Malaysians reeled from the shock of an unexpected Prime Ministerial resignation and the formation of a new government led by Muhyiddin Yassin. However, a timely Movement Control Order and accelerated testing has resulted in a comparatively lower fatality rate of 1.63%, with 7059 cases and 114 deaths as of 21<sup>st</sup> May 2020. Currently, the partial lockdown measures initiated on March 18 have eased to varying degrees across the country as a means to revive the economy, though certain states remain under lockdown due to fears of sparking new clusters.

## Economy – From Lacklustre to Negative Growth

The pandemic has wreaked havoc upon an already lacklustre economy, which registered a GDP growth rate of 3.6% in the fourth quarter of 2019 (slowest growth rate in a decade), slowed by low palm and crude oil production and exports amidst the US-China trade war. Debt levels also were a source of concern; household debt-to-GDP ratios stood at 82.2% in 2019, while corporate debt level was 134% of GDP in 2018, comparable to Asian financial crisis levels. Given this context, the outbreak caused Bank Negara Malaysia to revise its 2020 GDP growth projection from 4.5% to -2 to 0.5%. Similarly, the World Bank's upper and lower estimates went from 4.5% to 0.1% and -1% respectively, though it forecasts a recovery of 6.4% and 4.8% by 2021 and 2022. The Malaysia Institute of Economic Research estimated that household income would fall by USD 21 million and 15% of the country's labour force would be rendered unemployed. On the financial side, Malaysia's capital market experienced outflows amounting to RM 17.8 billion in 2020, the largest since the 2018 General Elections. Total foreign holdings plunged to their lowest levels in 9 months in March, due to decrease in holdings of Malaysian Government Securities by RM 12.5 billion and private debt securities by RM 210 million. This caused Fitch to revise its long term foreign currency issuer default rating from Stable to Negative, taking into account Malaysia's dependence on foreign financing (23% of total government bonds) and high levels of short-term external debt relative to foreign currency

**People-Centric Stimulus Package** To revitalise the battered economy, PM Muhyiddin Yassin introduced an RM 250 billion stimulus package, which is equivalent to 16% of the country's GDP. Titled the *Prihatin* (Care) Package, the measures included one-off cash transfers for lower and middle income households, utilities rebates and wage subsidies for three months for workers earning below RM4,000. Individuals can also make withdrawals from retirement savings and Employees Provident Funds (EPF) to tide through the crisis. The package also has several measures to safeguard SME's, which comprise 98.5% of businesses in Malaysia and employ 66% of the country's labour force. These include soft loans, credit guarantees, moratoriums on loan repayments and EPF contributions and tax cuts. However, Malaysian economists claim that the SME measures are insufficient as they would prefer to lay off staff to cut costs than take loans while their businesses are shut. The financing of the package is mostly from off-budget measures such as EPF withdrawals, and fiscal injections only amount to RM 35 billion, which is 2.3% of the GDP. Nonetheless, Malaysia's fiscal deficit is forecasted to increase from 3.4% in 2019 to 4.5% according to BNM, and 7% according to the World Bank.

## Strategies for Recovery – Advancing ASEAN Interconnectedness

Recovery will be a tough road ahead, but can be accomplished through careful policy coordination. First, SME's need to have timely information of the required safety protocols as the economy opens and receive assistance to set up clean premises and transition to digital platforms, since they lack the resources of bigger firms. Second, the crackdown on undocumented migrant workers in an effort to conduct contact tracing must be seen as counter-productive to preventing another outbreak, as raids only force them into hiding. In the longer term, a World Bank report recommended that ASEAN supply chains must be maintained and major investment projects laid out in the Budget 2020, such as the East Coast Rail Link and the National Fiberization and Connectivity Plan can increase domestic demand, and should include SME's through e-procurement plans, so they don't lose tenders to bigger companies. In the coming years, this crisis could serve as a catalyst for the much needed processes of digitisation, diversification and labour protection.